Fed's Plosser calls for sole inflation mandate for U.S. central bank

By: Krista Hughes – November 14, 2013

The U.S. Federal Reserve should have a single mandate of fighting inflation rather than its current dual focus on stable prices and jobs, a top Fed official said on Thursday.

Charles Plosser, president of the Philadelphia Fed, said changing the Fed's mandate and setting strict limits on its operations would improve the working of monetary policy, which had stretched out of shape after policymakers sought new tools to deal with the financial crisis and its aftermath.

Trying to have the central bank do too much blurred communication and risked a "highly discretionary" form of policymaking where officials could move the goal posts as they saw fit, he said.

"I have concluded that it would be appropriate to redefine the Fed's monetary policy goals to focus solely, or at least primarily, on price stability," Plosser said at a Cato Institute conference about the role of the Fed.

Plosser is just the latest Fed official to offer his backing for a mandate centered on controlling inflation, as opposed to also steering the economy to full employment. About a year ago, Dallas Fed chief Richard Fisher and James Bullard of the St. Louis Fed similarly called for a single Fed mandate.

Other policymakers, including Fed chairman Ben Bernanke and vice chair Janet Yellen, have defended the dual mandate. Yellen is expected to do so again on Thursday as she appears before the Senate Banking Committee, which is vetting her nomination to be Fed chair.

Some Republicans have also called for changing the Fed's congressionally set mandate to one that focuses solely on inflation, but those efforts do not have support among Democrats, who control the Senate, and have gone nowhere.

Plosser, a longtime critic of the Fed's bond-buying program, said the central bank should limit any asset purchases to U.S. government debt, selling all mortgage-backed securities in its portfolio. The purchase price could be the starting point for working out at what price to sell these, he added.

The U.S. central bank is buying $85 billion per month in Treasury and mortgage bonds in an effort to boost investment, hiring and growth, which have quadrupled its balance sheet to $3.8 trillion.

The Fed should also follow strict rules in setting policy to limit policymakers' discretion and make them more accountable, Plosser said.

For example, the Fed might outline how it would conduct policy in normal times in its regular reports to Congress, and if it deviated, be forced to explain how it intended to return to its planned path.

"My sense is that the recent difficulty the Fed has faced in trying to offer clear and transparent guidance on its current and future policy path stems from the fact that policymakers still desire to maintain discretion in setting monetary policy," Plosser said.

"Effective forward guidance, however, requires commitment to behave in a particular way in the future. But discretion is the antithesis of commitment and undermines the effectiveness of forward guidance. Given this tension, few should be surprised that the Fed has struggled with its communications."

Plosser, an inflation hawk who is not a voting member this year on the policy-setting Federal Open Market Committee, made no comment on the outlook for the economy or monetary policy in his prepared remarks.

Economists generally expect the Fed to maintain its current pace of bond purchases into 2014. Some see a chance of a scaling back at the Fed's December policy meeting given a strong jobs report for October, but some policymakers have pointed to very low inflation as a reason not to rush.

Asked after his speech about the dangers of deflation, or a spiral of falling prices, Plosser said that mild deflation might not be such a bad thing and he personally would have preferred an inflation target lower than the Fed's current 2 percent.

"I'm not nearly as afraid of zero inflation or mild deflation" as some colleagues, he said.

"The value of the target is the commitment rather than the number."